

EYE ON TURKEY

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Editor in chief

Guler Manisali Darman
Principal
CGSCenter

Editorial Board

Guler Manisali Darman
Dr. Cagri Bagatur
Necati Turker
Semsettin Akçay
Prof Dr. Can Simga Mugan

Where Are Best Opportunities?

There is a project going on in Turkey about the EU Business Development Centers. In the last fifteen days, I had the opportunity to chair and moderate 12 meetings in six cities to which city stakeholders, and the owners and directors of midcap and small companies participated. Cities are discussing their road maps and plan of action on the way to development. In these meetings I had the opportunity to participate to a SWOT (Strength, Weakness, Opportunities, and Threats) analysis of the cities from the business perspective.

According to the informal conclusions, if you are a company active in the field of defense industry and seeking partners in Turkey in defense industry and related IT companies, Eskisehir is the home town of those industries. It is also a city where universities play an eminent role.

If you are seeking partners in agriculture in products such as wheat or cherry, then you have to go to Konya where there are huge agricultural lands. Turkey has the best quality of cherry in the world together with USA and is the second biggest exporter in this commodity. A good idea to take into consideration when discussing global food shortage.



In furniture and home textile Kayseri still plays a leading role, but definitely Denizli which is worldwide famous with its towels, bathrobes, accounts most of the Turkish Textile exports. It is a city where almost most of the world brands outsource their productions. You can find genuine Gucci or Ferre

blue jean at very competitive prices at the export outlets.

Almost all inches of land in Turkey enjoys natural water, good for SPA. So, in every city, you learn about hotel-hospital complex projects being built as treatment centers. Turkey is gaining popularity for its health services, with well educated doctors, good services and SPA centers at competitive prices in every inch of Anatolia.

Trabzon, a city on the Black sea coast, close to the Georgian coast is ready for the shipping industry and almost finalized its infrastructure for ship building. Definitely one should not forget, it is biggest exporter of Turkish tea and, hazelnut which is very good for your health as they say.

So better learn Turkey, where to invest and how to have best partners

Guler Manisali Darman
Principal
CGS Center

An Opportunity to BUY

The series of financial crises in the late 1990s and the beginning of 2001 such as the Asian crisis, Russian crisis, also affected Turkey, by way of consequences. Likewise, the current global financial crisis brought widespread concerns to the economy where it resulted from the irresponsibility and incompetence of the United States which allowed investment banks and mortgage companies to earn indiscriminately and selfishly, at the expense of the greater good and sustainable growth.

By year's end, the impact of the global financial crisis of 2008 was starting to be felt in the developing world, with slowdowns expected in all emerging economies. In Turkey, the effect of this global crisis is the reverberation of it in terms of the retraction of credit, industry closures and eventually in trade loss. However, the largest state owned banks continues to provide business loans at low interest rates so that investments do not stop.

"By year's end, the impact of the global financial crisis of 2008 was starting to be felt in the developing world, with slowdowns expected in all emerging economies..."

Assoc. Prof. Guray Kucukkocaoglu at a Seminar organized by CGSCenter



Prime Minister Recep Tayyip Erdoğan, tries to present a more optimistic picture, saying that Turkish economy will avoid a crisis through sale of state enterprises and the government's efforts to prepare a package to support growth will cushion the impacts of the crunch.

Over the last several years the government has carried out a massive program to sell state enterprises, including mines, ports, refineries, telecom companies, to the highest bidder. As the Prime Minister mentioned above privatization of state owned enterprises such as national lottery games, sugar processing factories, real estate sales, electricity distribution lines, airlines and petrochemical holdings are on the 2009 agenda. An exciting possibility is looming for the potential buyers of these state owned companies to bid lower prices than before, as well, when this crisis over, buyers will have the privilege to become the major player in its industry in one of the fastest growing country.

Assoc. Prof .Guray Kucukkocaoglu
Baskent University, Ankara Turkey

BUBBLE BUBBLE HOW MUCH TROUBLE?

DEVELOPMENTS IN TURKISH BANKING SECTOR

In the middle of the global financial crisis, we try to outline some positive factors of the Turkish Banking Sector. Turkish Banking Sector seems to be well positioned comparing to other countries' banks on several aspects such as asset quality, risk management, mortgage, liquidity and capital adequacy etc..

We have seen several financial crises arised from both local and international factors in Turkey for last decades. In last decades, hyper inflation deteriorated all macro indicators and introduced high volatility in the Turkish Economy. Having said that banks management and government

bodies are well experienced to be faced with hard economic situations. Due to their experience and measures taken by the authorities for such situations, it can be safely said that Turkish Banks are more successful on risk management by comparison to the international competitors.

More, Turkish Banks' mortgage credits do not include sub-prime credits which is one of the major causes of the global financial crisis originated from the USA and the other developed countries. Also, the size of mortgage accounts 6% of total banking assets, and 11% of total banking credits.

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Non-performing mortgages is only less than 1% of total banking mortgage credits as of end of August, 2008 and it is not expected that mortgage would be a major stress on Turkish Banks in the foreseeable future, despite the Turkish Banks will not

loosen mortgage credits to individuals and to the construction companies in 6 to 8 months time.

On the other hand, under current global economic conditions which also imply tight conditions to reach to the available funds, we expect some threats from Turkish private firms' foreign financing side. Turkish companies heavily financed their operation directly from the international markets during the last five years. This does not mean necessarily it poses distress for the Turkish Banks.

To the extent that they face to difficulties to repay their debts and to obtain additional financing, sooner or later

banks will have some problems. Again, even if it occurs, we still stick to our judgment that the Turkish Banks are more healthy and sound than their foreign counterparts.

When we look standard capital adequacy ratio of the sector which is 17.7 as of end of August 2008, we estimate 10 to 20 % erosion could be expected at maximum in worst case scenario.



Turkish banking system is functioning as before, with no cash injection or full guarantee for accounts and interbank fund transfers by the government so far.

Oktay AYDIN

Chairman

Standart Real Estate Practice Plc.

FURTHER INCENTIVES PROPOSED FOR THE RENEWABLES IN TURKEY

Turkish renewable energy law of 5346 was approved by the Turkish Parliament on May 10th, 2005.

The head of the related commission head Dr. Soner Aksoy made a proposal for the Turkish Parliament for further incentives and changes on October 27th, 2008.

Proposed first change is the deletion biogas from the coverage of incentives and the second change is related to the zoning of the public lands for the production electric power. With the proposed change, the authority to handle the related project request is given to the General Directorate of Electrical Power Resources Survey and Development Administration.

The third change is the monetary incentives and buy-back guarantees. The minimum price will not be less than the wholesale prices announced by the government regulatory agency, the Energy Market Regulatory Agency (EMRA). The following incentives will be up to January 1st, 2016;

Prices after January 1st, 2016 will be as accepted by EMRA. But, the Cabinet is given power to adapt a higher prices than EMRA.

The last change is related to the use of public lands. In the original form this articles gives power to the power generating companies to use the land up to year 2011 with a 85 % costs reduction. The proposed new date is 2015.

The most significant impact of the proposed changes are for the renewable energy purchased guarantees till 2016. The original law only permits 5 to 5.5 euro-cent. Once legislated the amended changes will stimulate the Turkish renewable energy market.

Şükrü Boğut

Energy Consultant

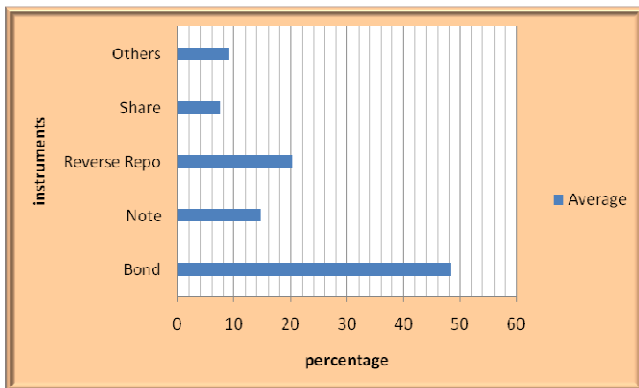
Sukru@Bogut.Org

| Source | Incentive for the first 5 years, Eurocent/kWh | Incentive for the second 5 years, Eurocent/kWh |
|------------|---|--|
| Wind | 6 | 5 |
| Biomass | 14 | 10 |
| Geothermal | 7 | 6 |
| Solar | 18 | 18 |
| Hydraulic | 5 | 5 |

FINANCIAL INVESTMENT VEHICLES IN TURKEY AND HEDGE FUNDS

A hedge fund is a private investment fund that charges a performance fee and is typically open to only a limited range of qualified investors. Hedge funds are known as a new type of mutual fund in Turkey. By using hedge funds, investors can take both long and short positions, use arbitrage, buy and sell undervalued securities, trade options or bonds and invest in almost any opportunity in any market. The Turkish mutual fund industry is characterized by the dominance of money market funds. Mutual funds mostly invest in commodities and currencies, engage in repo and reverse repo transactions and purchase credit to reduce the risk of the fund or to provide cash flow.

Now that with the introduction of hedge funds' regulation the industry will enter a new phase of development. Investors couldn't find their expectations from other mutual funds. Although they are described as high-risk mutual funds most of the times they can be less risky when comparing with other mutual funds. On the other hand, disadvantage of hedge funds are such as limited availability of short selling strategies, the lack of an organized well-functionary market for options.



The establishment procedures for hedge funds are similar to other investment funds. Banks, intermediary institutions, insurance companies, pension funds and employee funds that meet the requirements of the CMB of Turkey are allowed to establish hedge funds. Hedge funds are required to be registered with the CMB, and a prospectus should be prepared for the sale of fund units. The aim of this regulation is to increase the competitiveness and product/service range of Turkish fund industry. According to, CMB the envisaged amendments relate only to the establishment of hedge funds in Turkey and will not affect the sale of foreign hedge funds or other mutual funds units. The CMB's amendment to the Communiqué

permits the establishment of "Turkish domiciled free investment funds". The changes do not relate to the sale of foreign hedge funds in Turkey.

The Communiqué requires that at least one member of the board and all portfolio managers of the FIF (Free Investment Funds) should pass the license examinations in advanced capital market operations and derivatives. It also requires that hedge fund managers should have sufficient experience operating these fund and they must form an internal audit system including the risk management systems pertaining to the management of FIFs.

There are no minimum investment requirements such as maximum number of investors or minimum subscription amounts in FIF's. The proposed amendments also allowed all other legal and real persons with a total net worth of over 1 million YTL in total assets to invest in hedge funds. FIF's can only be distributed to qualified investors and cannot be advertised. On the other hand, the most arguable thing is that investing hedge funds are allowed by portfolio management companies.

The following graphic shows that Turkish households' investment inclination on 27 October 2008. As shown in the graphic, they invest mostly in bonds to avoid risk.

Detailed information can be found at the Capital Markets Website; www.cmb.gov.tr.

Gamze Değirmenci
Coordinator, Training and Conferences
CGS Center



TURKISH FINANCIAL INDUSTRY

A Glance to Turkish Financial Sector from USA

On the eve of the U.S. Presidential elections, global financial markets are perhaps best characterized by volatility and uncertainty. Whilst the best option to deal with the tumultuous status quo may seem to be to bury one's head in the sand and hope for a better day soon, it is hardly a suitable

strategy towards reviving global economic performance and restoring faith in financial markets. Within the current turmoil, many fund managers and investment advisors are faced with the challenge of not only answering but taking action with respect to determining if there are sound, risk appropriate investment opportunities to be found?

The answer is yes, attractive investment opportunities do exist, but finding the best opportunities requires us to continue to invest in the growth opportunities of tomorrow, today. Amongst such investment opportunities we find the Turkish financial services sector. Of key concern in looking at financial sector investments for the owners of capital is the regulatory infrastructure within which an investment is being executed. A predictable and transparent

financial architecture is paramount and equally enforced financial regulations are necessary towards attracting and retaining foreign investment. With respect to Turkey, since the Turkish financial crisis of the 1990s, the government has not only invested in world class regulatory authorities but, moreover, it has given them the political independence necessary to become

stalwarts of faith amongst market participants.

With respect to Turkey, the conventional finance regulatory environment is indeed world class,

and enforcement is equally rigorous. When we turn to the Participation Banks in Turkey, however, the current financial infrastructure is less inviting. The same world class financial regulations do not exist, and the market penetration of the participation banks remains low. Nevertheless, the public investment in building an enabling environment and establishing the necessary architecture for participation banking and Islamic finance in Turkey is significant. With clear view of this strategy, the participation or Islamic banking sector offers significant growth potential for long-term investors seeking productive exposure to the Turkish market.

While macroeconomic conditions have come under some recent pressure and minor political concerns persist, the overall investment climate in Turkey remains very attractive. The financial services sector continues to offer sound investment opportunities for growth minded investors with a long-term view, and Turkey will continue to feature in the portfolios of global oriented investors.

**Kavilash Chawla, Principal
Nur Advisors LLC, Chicago**



“While macroeconomic conditions have come under some recent pressure and minor political concerns persist, the overall investment climate in Turkey remains very attractive...”



(From left to right) Alex Barkavi, SAM Index General Director, Guler Manusali Darman, Kavilash Chawla, Principle Nur Advisors IIFF Forum, 19-23 March 2006, Dubai.

Corporate Governance & Sustainability Center

Yesilkent Sitesi No 67
Cayyolu 06801
Ankara/TURKEY

Phone: +90 (312) 240 0395
Fax: +90 (312) 241 1799
E-mail: info@cgscenter.com

www.cgscenter.org



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Corporate Governance and Sustainability Center is composed of eligible partners, in the field of corporate governance, and related services ranging from assessment to research and from raising awareness to compliance.

Associates of CGSCenter assists Turkish companies active in various fields such as finance, IT, insurance, energy, tourism, real estate development, and construction, that seek finance (equity or debt), open for partnership opportunities, interested in sell-outs, or buy-outs, or mergers and acquisitions.

Our Associates;

GMD Global Advisors

GNT Tourism & Project Management

Bagatur Law Company

Opportunity List

1. Sale of a petroleum refinery plant.
2. Private equity financing of a cement factory 6.000.000 ton/year.
3. Sale of mattress production factories.
4. Sale of car battery manufacturing factory.
5. A developer looking for investor about hospital investment.
6. Developers looking for investors or finance about Hydro Electric Power Plants.
7. An investor looking for a strategic partner who produces natural gas.
8. Sale of a complex with shopping mall with 104.000 sqm GLA and five star hotel with 263 rooms .
9. Sale of a thermal spa hotel.
10. Private equity financing of a department stores chain.
11. A developer looking for investors for a thermal medical spa residence & hotel and hospital Project.
12. A developer looking for investors for a private medical (health) service.